

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 313 - SB 592

March 15, 2011

SUMMARY OF BILL: Creates a one-time sales tax holiday for Tennessee small businesses. Defines "Tennessee small business" to mean a business operating for profit that employs no more than 10 employees and has total gross receipts of no more than \$2,000,000 in the year immediately preceding application for refund of paid sales tax. The sales tax holiday for any qualified Tennessee small business shall be for one continuous 48-hour period occurring between January 1, 2012, and June 30, 2012. Limits the amount of sales tax refunded to any qualified Tennessee small business to \$5,000. Purchases paid for with cash will not be eligible for refunds of sales tax. Establishes an application filing deadline of August 31, 2012. Requires the Department of Revenue (DOR) to develop guidelines for administering the sales tax holiday. Authorizes DOR to assess civil penalties up to \$25,000 for individuals submitting false or fraudulent refund applications. Requires all refunds be paid from the General Fund. Holds local governments harmless from loss of sales tax revenue.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Exceeds \$13,489,800/One-Time

Increase State Expenditures – Exceeds \$5,807,900/One-Time

Assumptions:

- The current Fiscal Review Committee estimate for state sales tax revenue for FY11-12 is \$6,565,020,000.
- There are 8,760 hours each calendar year (24 hours x 365 days).
- State sales tax collections per hour for FY11-12 are estimated to be \$749,432 (\$6,565,020,000 / 8,760 hours).
- State sales tax collections for each 48-hour period are estimated to be \$35,972,736 (\$749,432 x 48 hours).
- At least thirty percent of state sales tax collections are derived from Tennessee small businesses each year.
- Purchases made by eligible Tennessee small businesses increase by at least 25 percent during the sales tax holiday.
- The one-time decrease in state revenue will exceed \$13,489,776 (\$35,972,736 x 30% x 125%).

- An average state sales tax rate of 6.5 percent and an average local option sales tax rate of 2.5 percent. The average state sales tax rate takes into account the reduced state sales tax rate of 5.5 percent for food and food ingredients.
- Pursuant to Tenn. Code Ann. § 67-6-103 (a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue.
- The one-time increase in state expenditures for holding local governments harmless from the loss of sales tax revenue will exceed \$5,807,893 $\{[(\$13,489,776 / 6.5\%) \times 2.5\%] + [\$13,489,776 \times 4.5925\%]\}$.
- No other increase in state expenditures for administration because DOR has resources for administering the annual sales tax holiday occurring each August.
- There will not be a sufficient number of cases for the state to experience any significant increase in civil penalty revenue.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc